

Mphasis Limited

CMP Rs. 288.9
BUY

QE APR 09
Result Review

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The quarter ended April 2009, Mphasis showed revenue of Rs. 10485 Mn crossing the Rs.1000 Crs revenue mark, showing a year on year growth of 52.3% & the bottom line at Rs 2245 Mn showed an year on year growth of 219.1%. The revenues for the 6 month period ending April 2009, clocked Rs. 20261.3 Mn showing a growth of 55.1% over the corresponding 6 month period ending April 2008. The bottom line over this 6 month period grew by 242% over the corresponding period ending April 2008. This quarter's results reinforce the fact that there is scope for even greater improvement in the company's performance. The margins have remained steady sequentially. As of this quarter, revenues from Application Services grew by 52% whereas BPO & ITO revenues by 18.4% & 105.4% respectively as compared to quarter ended April 2008. Operating margins have showed an year on year improvement of 12% on a year on year basis.

This quarter Mphasis saw an infusion of 10% of its total headcount, 3822 new employees, making the total headcount at 33,810 as of April 2009. A large portion of the addition has been made to the BPO business, which represents regular growth adjusting to the demand. 14 new clients were added this quarter out of which 13 have come from the parent, HP. The management expects that the company faces no significant risk from vendor consolidation. The company has also witnessed zero client drops over the quarter. As far as the volume growth is concerned, Application Services has seen a volume growth of 5% whereas ITO & BPO have seen a growth in volume of 18.8% & 3.8% respectively over the quarter. Cash & Bank balances including liquid investments at the end of the quarter are at Rs. 3555 Mn. The company hedges for 12 months revenues & has forward contracts till April 2010. The average hedging rate is around Rs 47.5 to Rs. 48 to a dollar.

Business flowing in from the HP-EDS client is in the range of 42-45% of the total business. The management expects incremental revenues coming in from the client as further consolidation takes place. Sequentially billing rates have been stable. As for the tax rate, 25% revenue currently comes from the SEZ units. Also the tax holiday expires in FY10 which will bring the group tax rate to approximately 7%, yet how the distribution of the SEZ business & the non-SEZ business pans out still remains undetermined.

With EPS at Rs. 10.69, the company seems to be on its way to achieve an annual EPS in its fourth decile, with a conservative estimate at Rs. 40.6. This brings the earnings multiple to around 7 times at CMP. We recommend a BUY at 10 times one year forward earnings with a target price of Rs.406.

Data Points

Revenues by Vertical / Industry	QE Apr 09	QE Jan 09	QE Oct 08
Banking & Financial Services	39%	43%	44%
Technology & OEMs	24%	25%	23%
Telecom	12%	9%	11%
Manufacturing & Retail	12%	13%	12%
Logistics, Airlines & Transportation	6%	5%	6%
Healthcare & Pharma	7%	5%	4%
Total	100%	100%	100%

Data Points

Revenues by Geography	QE Apr 09	QE Jan 09	QE Oct 08
USA	69%	67%	69%
Europe	20%	22%	19%
Asia Pacific	5%	4%	4%
India & Middle East	6%	7%	7%
Total	100%	100%	100%

Revenues by Service Type	QE Apr 09	QE Jan 09	QE Oct 08
Application Maintenance & Other Services	33%	34%	34%
Application Development	31%	31%	30%
Customer Service	8%	8%	10%
Service / Technical Help Desk	7%	8%	8%
Transaction Processing Service	5%	5%	6%
Infrastructure Management Services	13%	10%	8%
Knowledge Processes	4%	4%	4%
Total	100%	100%	100%

Revenues by Project Type	QE Apr 09	QE Jan 09	QE Oct 08
Time and Material	92%	94%	94%
Fixed Price	8%	6%	6%
Total	100%	100%	100%

Revenues by Delivery Location	QE Apr 09	QE Jan 09	QE Oct 08
Onsite	25%	28%	26%
Offshore	75%	72%	74%
Total	100%	100%	100%

Group - Client Concentration	QE Apr 09	QE Jan 09	QE Oct 08
Revenues from Top Client	14%	15%	15%
Revenues from Top 5 Clients	31%	36%	33%
Revenues from Top 10 Clients	43%	50%	48%
<u>Clients Contributing more than:</u>			
\$ 1 million Revenues	109	95	94
\$ 5 million Revenues	34	31	32
\$ 10 million Revenues	22	21	18
\$ 20 million Revenues	6	7	8
Receivables Days	40	43	41

Data Points

Number of Employees	QE Apr 09	QE Jan 09	QE Oct 08
<u>Onsite</u>			
- Applications	1,589	1,581	1,519
- BPO	146	116	118
- ITO	24	24	0
<u>Offshore</u>			
- Applications	9,917	9,648	9,072
- BPO	17,237	13,840	13,854
- ITO	4,897	4,779	4,232
Total	33,810	29,988	28,795

Average Utilization Rates	QE Apr 09	QE Jan 09	QE Oct 08
<u>Applications</u>			
Excluding Trainees			
- Onsite	86%	84%	85%
- Offshore	77%	75%	80%
- Blended	79%	76%	81%
Including Trainees			
- Onsite	86%	84%	85%
- Offshore	73%	72%	77%
- Blended	75%	74%	78%
<u>BPO</u>			
Process Utilisation (excluding trainees)	63%	65%	68%
Process Utilisation (including trainees)	53%	58%	58%
<u>ITO</u>			
Excluding Trainees			
- Onsite	98%	85%	0%
- Offshore	83%	78%	78%
- Blended	83%	78%	78%
Including Trainees			
- Onsite	98%	85%	0%
- Offshore	76%	73%	73%
- Blended	76%	73%	73%

Quarterly & Segmental Analysis

Earnings Statement								
YE March (Rs. Mn.)	QE Apr 09	QE Jan 09	Q-Q (%)	QE Apr 08	Y-Y(%)	6ME Apr 09	6ME Apr 08	Y-Y(%)
Net Revenues	10,484.7	9,776.6	7.24%	6,883.7	52.31%	20,261.3	13,066.9	55.06%
Cost of Revenues	6,555.4	6,117.6	7.16%	5,126.9	27.86%	12,673.0	9,724.3	30.32%
Gross Profit	3,929.3	3,659.0	7.39%	1,756.8	123.66%	7,588.3	3,342.6	127.02%
Selling Expenses	464.8	415.9	11.76%	266.9	74.15%	880.8	451.8	94.95%
General & Admin Expenses	1,190.6	1,137.2	4.70%	810.4	46.92%	2,327.8	1,594.5	45.99%
Provision for Doubtful debts	8.0	0.0	-	13.1	-38.93%	8.0	22.2	-63.96%
Total Expenditure	8,218.8	7,670.7	7.15%	6,217.3	32.19%	15,889.6	11,792.8	34.74%
Operating Profit	2,265.9	2,105.9	7.60%	666.4	240.02%	4,371.7	1,274.1	243.12%
OPM (%)	21.61%	21.54%	0.33%	9.68%	123.24%	21.58%	9.75%	121.29%
Forex Gain/(Loss)	123.5	30.9	299.68%	40.5	204.94%	154.5	5.1	2929.41%
Other Income	29.7	33.6	-11.61%	14.2	109.15%	63.2	34.0	85.88%
PBT	2,419.1	2,170.4	11.46%	721.1	235.47%	4,589.4	1,313.2	249.48%
Tax	174.5	70.2	148.54%	17.7	885.73%	244.7	42.7	473.07%
PAT Before MI	2,244.6	2,100.2	6.88%	703.4	219.11%	4,344.7	1,270.5	241.97%
PAT	2,244.6	2,100.2	6.88%	703.4	219.11%	4,344.7	1,270.5	241.97%
Equity Capital	2,089.7	2,089.4	0.01%	2,087.7	0.10%	2,089.7	2,087.7	0.10%
EPS	10.7	10.0	6.79%	2,087.7	-99.49%	20.7	6.1	242.31%
Ratio Analysis								
YE March (Rs. Mn.)	QE Apr 09	QE Jan 09	Q-Q(bps)	QE Apr 08	Y-Y(bps)	6ME Apr 09	6ME Apr 08	Y-Y(bps)
GPM (%)	37.48%	37.43%	5.0	25.52%	1,195.5	37.45%	25.58%	1,187.2
OPM (%)	21.61%	21.54%	7.1	9.68%	1,193.1	21.58%	9.75%	1,182.6
PBT (%)	23.07%	22.20%	87.3	10.48%	1,259.7	22.65%	10.05%	1,260.1
PAT (%)	21.41%	21.48%	(7.3)	10.22%	1,119.0	21.44%	9.72%	1,172.0
Segmental Analysis								
YE March (Rs. Mn.)	QE Apr 09	QE Jan 09	Q-Q(%)	QE Apr 08	Y-Y(%)	6ME Apr 09	6ME Apr 08	Y-Y(%)
Revenues								
Application Services	6,691.1	6,414.5	4.31%	4,381.9	52.70%	13,052.1	8,360.9	56.11%
BPO Services	1,832.1	1,770.5	3.48%	1,547.2	18.41%	3,597.3	2,967.6	21.22%
ITO Services	1,961.5	1,667.7	17.62%	954.6	105.48%	3,611.9	1,738.4	107.77%
Total	10,484.7	9,852.7	6.41%	6,883.7	52.31%	20,261.3	13,066.9	55.06%
Profits								
Application Services	2,225.1	2,217.0	0.37%	781.5	184.72%	4,388.5	1,517.6	189.17%
BPO Services	383.2	404.0	-5.15%	421.5	-9.09%	782.0	785.7	-0.47%
ITO Services	802.7	652.8	22.96%	191.0	320.26%	1,438.2	329.5	336.48%
Total	3,411.0	3,273.8	4.19%	1,394.0	144.69%	6,608.7	2,632.8	151.01%
YE March (%)	QE Apr 09	QE Jan 09	Q-Q(bps)	QE Apr 08	Y-Y(bps)	6ME Apr 09	6ME Apr 08	Y-Y(bps)
Margins								
Application Services	33.25%	34.56%	(130.8)	17.83%	1,542.0	33.62%	18.15%	1,547.2
BPO Services	20.92%	22.82%	(190.3)	27.24%	(632.7)	21.74%	26.48%	(473.7)
ITO Services	40.92%	39.14%	177.9	20.01%	2,091.4	39.82%	18.95%	2,086.4
Total	32.53%	33.23%	(69.4)	20.25%	1,228.2	32.62%	20.15%	1,246.9
Business Mix								
Application Services	63.82%	65.10%	(128.6)	63.66%	16.2	64.42%	63.99%	43.4
BPO Services	17.47%	17.97%	(49.6)	22.48%	(500.2)	17.75%	22.71%	(495.6)
ITO Services	18.71%	16.93%	178.2	13.87%	484.1	17.83%	13.30%	452.3
Total	100.00%	100.00%		100.00%		100.00%	100.00%	
ROCE								
Application Services	39.74%	40.93%	(118.7)	15.15%	2,459.5	78.38%	29.41%	4,896.8
BPO Services	7.93%	7.72%	21.7	9.05%	(111.6)	16.19%	16.87%	(68.0)
ITO Services	49.40%	36.46%	1,294.4	38.23%	1,117.2	88.52%	65.95%	2,256.3
Total	28.30%	26.31%	198.6	13.51%	1,478.5	54.82%	25.52%	2,930.4

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1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
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Mphasis

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YES
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